MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2215)

DEC5014 – MICROECONOMICS

(All sections/Groups)

13 FEBRUARY 2023
9.00 AM – 11.00 AM
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 16 pages with 2 sections.
2. Attempt **ALL** questions in Section A and Section B. The distribution of the marks for each question is given.
3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. When The Face Shop Cosmetics, a cosmetic retailer decided to sell natural scented soap and lotions using natural and organic ingredients. They are answering the _____ part of one of the two big questions.

   A. scarcity
   B. what
   C. how
   D. whom

2. When a manager of a manufacturing company sends his engineer for a machine control training, he is _____.

   A. investing in workers' human capital
   B. wasting the company money
   C. doing a macroeconomics decision
   D. facing a scarcity

3. In economics, entrepreneur is a person who do all the following **EXCEPT** _____.

   A. organize labor, land, and capital
   B. come up with new ideas about what and how to produce
   C. own all the other resources used in the production process
   D. promoting false advertising to gain higher profit

4. Which of the following is consistent with the meaning of scarcity?

   A. Fulfilling all the social interests equally.
   B. Limited available resource due to infinite wants.
   C. Something that is temporary.
   D. To find efficient production.

Continued...

Question 5 and 6 are based on Figure 1 below.

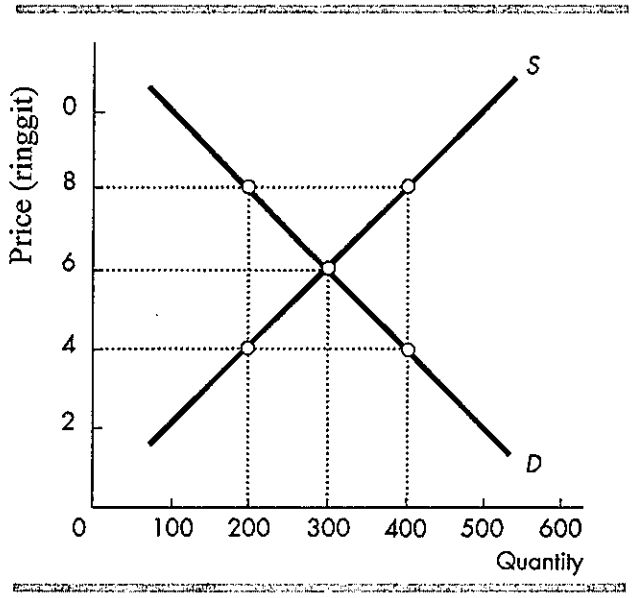

Figure 1

5. In the Figure 1 above, if the price is RM4 then there is a _____.

   A. surplus of 100
   B. shortage of 100
   C. surplus of 200
   D. shortage of 200

6. Based on Figure 1, which of the following is **NOT TRUE**?

   A. At RM4 per unit, the quantity supplied is smaller than quantity demanded.
   B. Equilibrium price is RM6, and equilibrium quantity is at 300.
   C. There is a shift of demand curve to the right.
   D. Supply curve is upward sloping.

7. If the price is above equilibrium, the market experienced _____ and the price will _____ until it reaches equilibrium.

   A. surplus; decrease
   B. shortage; decrease
   C. surplus; increase
   D. shortage; increase

Continued...

8. An inferior good is a good that _____ when income _____.

   A. increases; increases
   B. decreases; increases
   C. decreases; decreases
   D. increases; constant

9. Normal goods are those for which demand decreases as _____.

   A. the price of a complement falls
   B. the price of a substitute increases
   C. income decreases
   D. the good's own price rises

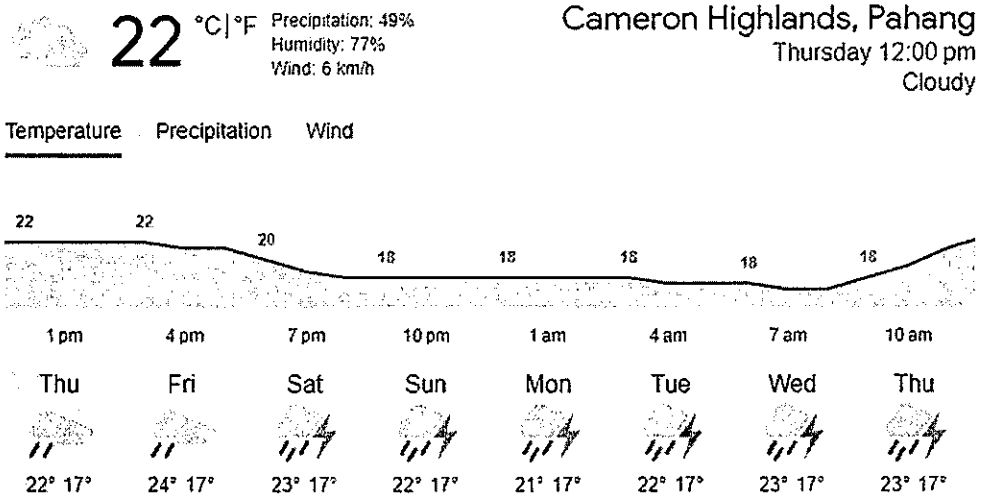

Figure 2

10. Figure 2 shows weather forecast in Cameron Highland on 23rd February 2023. A clear weather will increase the demand of local strawberries and a rainy day will sharply reduce the demand of strawberries due to lesser tourists. On that day, you predict that the demand of strawberries will _____, and the equilibrium price will _____.

    A. fall; increase
    B. fall; decrease
    C. rise; increase
    D. rise; decrease

Continued...

11. If the price of product *'alpha'* falls and this change decreases the demand for product *'gamma'*, then _____.

A. alpha and gamma are complements.
B. alpha and gamma are substitutes.
C. alpha is an inferior good.
D. gamma is an inferior good.

12. If the demand for a good is perfectly inelastic, the price elasticity of demand is _____ and the demand curve is _____.

A. infinite; horizontal
B. zero; horizontal
C. zero; vertical
D. infinite; vertical

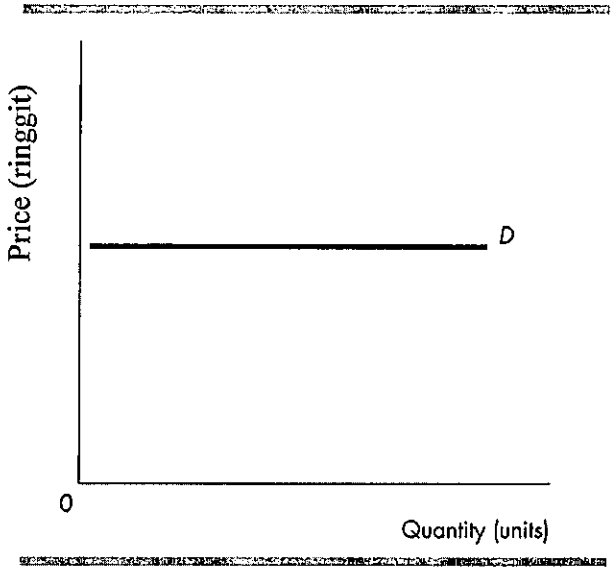

Figure 3

13. The demand curve in the figure above illustrates the elasticity of product 'X'. The quantity demanded for this product will change when the price _____.

A. increase
B. does not change
C. decrease
D. cut

Continued...

14. A student with RM800 monthly allowance is more price sensitive when buying an iPad costs RM4000 compared to a billionaire who is less price sensitive when buying a RM1,000,000 car. This explains the _____ effect on the elasticity of demand.

A. percentage of income spent
B. resource substantiality
C. time frame in production
D. substitution of the good

15. Diminishing marginal utility means that _____.

A. a person will enjoy his/her second pizza less than the first
B. the total utility from one pizza exceeds the total utility from two pizzas
C. the price of two pizza is twice the price of one
D. beyond a certain point, total utility decreases as income rises

16. Economists' objective using utility theory is to _____.

A. maximize the consumers' marginal utility
B. maximize the consumers' total utility
C. maximize the consumers' income
D. maintain the consumers' marginal utility

17. Suppose Jamie spends his entire budget buying 2 waffles and 3 cups of juice every morning. The marginal utility of the second waffle is 100 and the marginal utility of the third cup of juice is 200. If the price of a waffle is RM4 and the price of a cup of juice is RM2. Which of the following statements is **TRUE**?

A. Jamie needs to decrease his consumption of waffles to maximize his utility.
B. Jamie needs to increase his consumption of waffles to maximize his utility.
C. Jamie should buy half as many waffles as juices to maximize his utility.
D. The waffles must provide more total utility than juice.

18. Rani only bought skirts and bags. Suppose Rani's income increased and the prices of skirts and bags do not change. Rani's budget line will _____.

A. shift leftward and its slope will not change
B. remain unchanged
C. shift rightward and its slope will not change
D. shift rightward and become steeper

Continued...

19. Blair consumes paints and comics. Paints and comics are substitutes. Which of the following is **TRUE** if there is an increase in price of paint?

A. The demand curve for paints shifts leftward.
B. The demand curve for paints shifts leftward and the demand curve for comics shifts rightward.
C. There is an upward movement along the demand curve for paints.
D. There is an upward movement along the demand curve for paints and the demand curve for comics shifts rightward.

20. Karen quits her job as a baker making RM40,000 per year to start her own cafe. The first year, Karen's Cafe earned RM150,000 in revenue. Karen pays RM30,000 per year in salaries to the waitresses and RM10,000 per year to buy baking supplies. What is Karen's economic profit for the year?

A. RM80,000
B. RM50,000
C. RM30,000
D. RM70,000

21. Which of the following is among the five basic decisions a firm must make in order to maximized profit?

I. How to produce
II. How to cut its workers' salary
III. How to swindle the consumer
IV. What to produce itself and what to buy from other firms

A. I and II.
B. I and IV.
C. II and III.
D. I, II and IV.

22. What is the difference between total revenue and opportunity cost of production?

A. Economic profit.
B. Normal profit.
C. Accounting profit.
D. Cost of raw materials.

Continued...

23. _____ is a time frame in which the quantity of one or more resources used in production is fixed.

A. Long run
B. Short resource
C. Short run
D. Long resource

Question 24 and 25 are based on Figure 4 below.

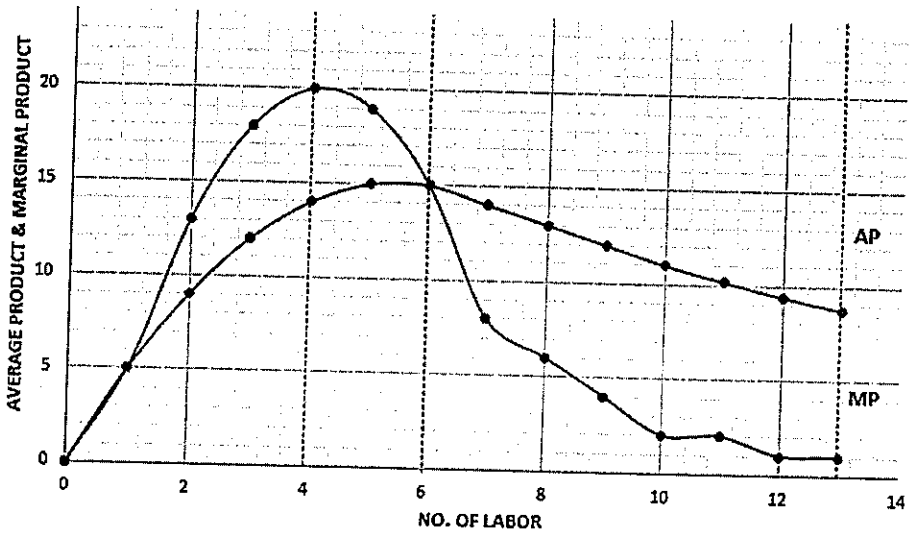

Figure 4

24. Based on Figure 4, at which number of labors does the firm experiencing diminishing marginal return?

A. 0
B. 2
C. 3
D. 6

25. Based on Figure 4, when should the firm stops hiring additional labor?

A. 2
B. 3
C. 4
D. 5

Continued...

26. Calculate Obama's normal profit if his forgone wages as a bartender is RM30,000 and the total cost of resource supplied by owner is RM100,000.

A. RM3 per unit.
B. -RM70,000.
C. RM130,000.
D. RM70,000.

Question 27 and 28 are based on Figure 5 ~~below~~.

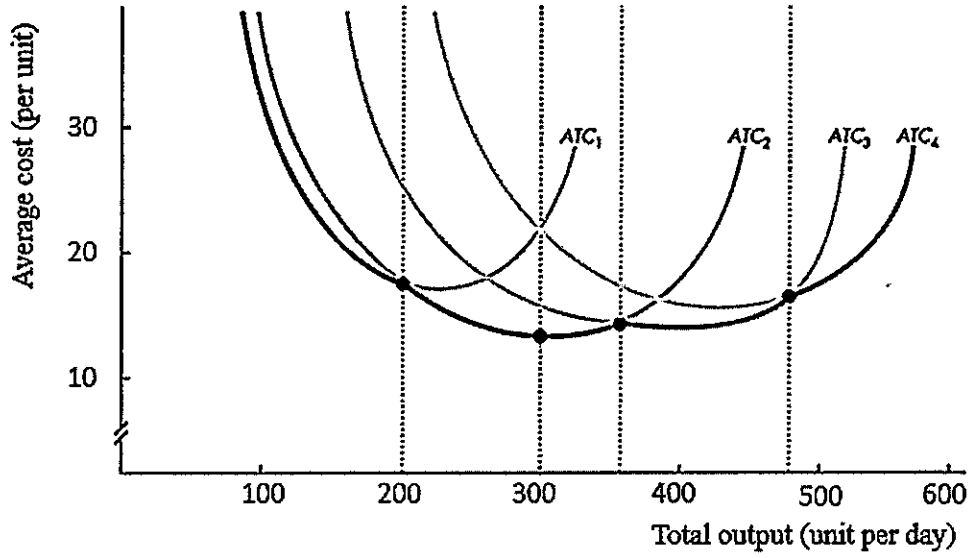

Figure 5

27. Figure 5 shows the production cost for factory 'Y'. Which range of production does the factory is experiencing decreasing cost of production in the long run?

A. 0 to 600 unit.
B. 0 to 500 unit.
C. 0 to 400 unit.
D. 0 to 300 unit.

28. The firm will **MOST** likely to produce at _____ unit.

A. 200
B. 300
C. 400
D. 500

Continued...

Question 29 until 31 are based on Table 1.

The Production Function				
Labor (workers per day)	Output (Vases per day)			
	Plant 1	**Plant 2**	**Plant 3**	**Plant 4**
0	0	0	0	0
1	4	10	23	35
2	10	25	56	65
3	13	55	96	131
4	15	95	146	237
5	16	120	206	277
Pottery Wheel machines (number)	**1**	**2**	**3**	**4**

Table 1

29. Table 1 shows the production function of a small pottery studio producing clay vases. If the owner wants to buy 2 pottery wheel machines, how many workers should he hires?

A. 2
B. 3
C. 4
D. 5

30. Table 1 shows the production function of a small pottery studio producing clay vases. If the owner wants to buy 1 pottery wheel machines, at which labor does the firm starts experiencing diminishing marginal return to labor?

A. 2
B. 3
C. 4
D. 5

31. Table 1 shows the production function of a small pottery studio producing clay vases. If the owner wants to employ 3 workers, how many plant should the firm hire?

A. Plant 1
B. Plant 2
C. Plant 3
D. Plant 4

Continued...

32. Which of the following is **TRUE** regarding perfect competition?

I. The firms have no control over the price.
II. Marginal revenue always below the price of the product.
III. Established firms have no advantage over new firms.

A. I and II.
B. II and III.
C. I and III.
D. I only.

33. How does a perfect competition firm determine the price of its goods?

A. Supply and demand curve intersect.
B. Elasticity of supply equals the industry elasticity of demand.
C. Average variable cost equals the industry average total cost.
D. Fixed cost is zero.

34. Umbrella Corps is in a pharmaceutical industry supplying antidotes for a deadly virus and has recorded making economic profits in the long run. What other characteristic would be important to determine if this is a monopoly market?

A. Its antidotes have no perfect substitutes.
B. Its price exceeds its average total cost.
C. Its marginal revenue equals its marginal cost.
D. Market demand is elastic.

35. Which of the following characteristics is **IMPORTANT** for a firm to form a cartel in the market?

A. A market in which there are only a few firms and barriers to entry exist.
B. A market in which firms sell a homogeneous good.
C. A market in which firms sell a differentiated good.
D. A market in which there are many firms.

Continued...

Question 36 until 38 are based on Figure 6.

		Netflix	
		Low Bid	**High Bid**
Disney+	**Low Bid**	RM150 mil / RM100 mil	RM125 mil / RM160 mil
	High Bid	RM130 mil / RM70 mil	RM110 mil / RM125 mil

Figure 6

Suppose in a broadcasting industry is a duopoly consisting of Netflix and Disney+. The broadcast rights for new movie 'Transformer: Rise of the Beast' is coming up and both firms must decide how much to bid for the movie broadcasting rights. Each firm can submit low-bid or high-bid for the rights. The revenues (in millions) are summarized in Figure 6 above.

36. Based on the matrix, what is Disney+'s possible revenue if the firm bid low?

A. RM150 million or RM125 million.
B. RM100 million or RM70 million.
C. RM100 million or RM160 million.
D. RM70 million or RM125 million.

37. Which of the following is **NOT** the possible outcome for this matrix?

A. Netflix bid low and Disney+ bid high.
B. Both Netflix and Disney+ does not bid.
C. Netflix bid high and Disney+ bid low.
D. Both Netflix and Disney+ bid high.

38. Identify the Nash Equilibrium for this matrix.

A. Both Netflix and Disney+ bid high.
B. Netflix bid low and Disney+ bid high.
C. Both Netflix and Disney+ bid low.
D. Netflix bid high and Disney+ bid low.

Continued...

39. Which of the following is **NOT** one of the factor markets?

A. Labor market.
B. Capital market.
C. Land market.
D. Entrepreneurs market.

40. What is a monopsony?

A. A market with one seller.
B. A market with no buyer.
C. A market with few buyers.
D. A market with just one buyer.

[TOTAL: 40 MARKS]

Continued...

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

Answer ALL questions. Answers should be written on the answer booklet provided.

QUESTION 1

Quantity (Liter per day)	Total cost (RM)
0	5000
1000	10,000
3000	11300
5500	15000
7300	19500
8300	23,000

Table 2

Green Farm produces and sells milk. The market price of milk is RM3.50 per liter. The relationship between the farm's output and total costs is shown in the Table 2.

(a) Calculate Green Farm's average total cost (ATC), average variable cost (AVC), marginal cost (MC) and marginal revenue (MR). (20 marks)

Quantity (Liter per day)	Total cost (RM)	Average Total Cost (ATC)	Average Variable Cost (AVC)	Marginal Cost (MC)	Marginal Revenue (MR)
0	5000				
1000	10,000				
3000	11300				
5500	15000				
7300	19500				
8300	23,000				

(b) What is the profit maximizing quantity for the firm? (2 marks)

(c) What is the market structure for this firm? Briefly explain. (3 marks)

(Total: 25 marks)

Continued...

QUESTION 2

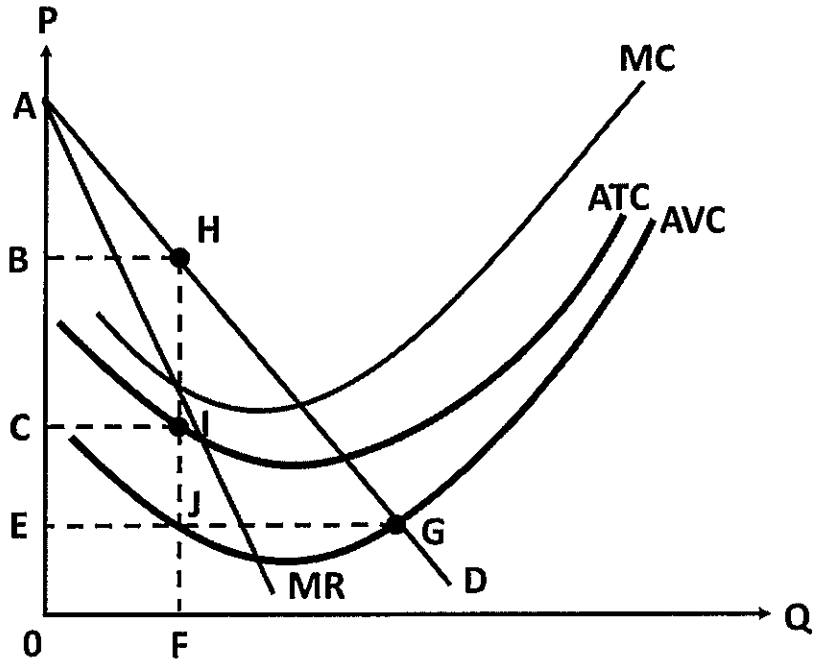

Figure 7

(a) Figure 7 shows the cost curves for a monopolist in the airline industry. Use the letters in the graph to fill in the following questions: (5 marks)

(i) The monopolist should produce at quantity _____ to maximise its profit.

(ii) The monopolist charges price at _____ per unit in profit maximization output.

(iii) The average fixed cost area is _____.

(iv) The monopolist profit area is represented in _____.

(v) What does the rectangle BHF0 represent?

Continued...

B = 100	C = 45	E = 20	F = 50

Table 3

(b) Based on the values given in the Table 3, calculate the following: (15 marks)

i. Total Cost	
ii. Total Variable Cost	
iii. Total Fixed Cost	
iv. Total Revenue	
v. Profit	

(Total: 20 marks)

Continued...

QUESTION 3

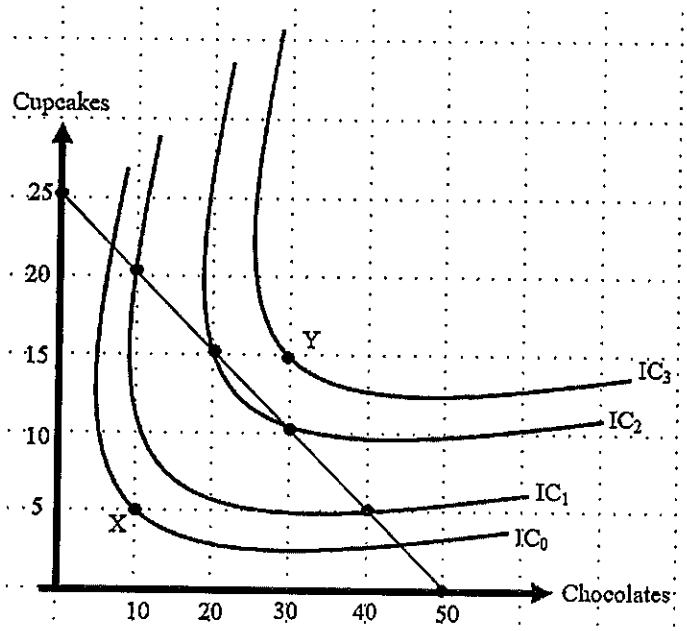

Figure 8

a) Every year, Christine allocated RM100 to buy her two favorite desserts: cupcakes and chocolates. Figure 8 shows her consumption combination and preferences for the two goods.

i. Based on Figure 8, complete Table 4 below. (5 marks)

Cupcakes	Chocolates
	0
0	

Table 4

ii. Explain the difference between point X and point Y in terms of Christine's budget and preferences. (4 marks)

b) Based on Figure 8, find;

i. The price of cupcake. (2 marks)

ii. The price of chocolate. (2 marks)

iii. The budget equation. (2 marks)

End of Page.